“Prabhat Dairy Q1 FY2018 Earnings Conference Call”

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Moderator: Good morning ladies and gentlemen, welcome to Prabhat Dairy Q1 FY2018 earnings conference call hosted by Edelweiss Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. I now hand the conference over to Ms. Shradha Sheth from Edelweiss Securities Limited. Thank you and over to you Madam!

Shradha Sheth: Thank you Lizanne. On behalf of Edelweiss let me welcome you all to the Q1 FY2018 earnings call of Prabhat Dairy. From the management, today we have Mr. Vivek Nirmal – The Managing Director and Mr. Raviraj V, CFO of Prabhat. So without any further ado, I hand over the call to Mr. Vivek Nirmal for his initial comments post which we will open the floor for Q&A. Thank you and over to you Sir!

Vivek S Nirmal: Good morning everyone. We welcome you to the call. Q1 total revenues have increased by around 23% year-on-year towards Rs.360 Crores. Milk prices have been reduced by around 5% from the last quarter, but I will just take everyone through the key highlights of the last few years. We begin now by thanking all of you for coming on this call.

Before we discuss the financial performance, let me emphasize on our business philosophy and our transforming business model, which will help us take advantage of the fast-growing industry and long-term sustainable numbers. Our robust achievement is backed by our integrated business model, best in class milk procurement system, built on intense farmer engagement and trust, state-of-art manufacturing facilities and strict quality control and food safety standards. We are fully integrated milk and dairy products company right from the farmer to the end customer. We are evolving from being an established specialty dairy ingredients company. We are an emerging customer focussed brand driven company with a wide range of dairy products under our brand portfolio. We are seeing a smooth scalability in our consumer business. We have recently revamped our branding across product segments to develop a deeper connect with our target customer. We have launched new variants under milk and Dahi, we have created our own niche and developed five different variations of the milk pouches as per specific consumer requirement based on the protein and fat content, which have seen a very good response. We have also launched Prabhat Pro-Plus, which is probiotic variation of Dahi. We have expanded our modern trade footprints beyond Maharashtra in cities like Kolkata, Delhi and Ahmedabad. Ice cream brand Volup, which had a soft launch earlier this summer has seen a very positive response and we intend to increase our presence in Maharashtra in next two to three years. We are currently working on an extensive range of new milk-based products, which cater to aspirational needs of consumers. We are also gearing up for upcoming festive season and have started working on our ATL and BTL marketing activities.

Coming to the B2B business, we continue to have strong relationships and grow further. During this quarter, we have tied up with leading French Company for it's ricotta cheese and butter requirement in India. We have received approval from large confectionary company for the supplies of whey protein and anhydrous milk fat. We have also started co-manufacturing for a couple of large confectionary and food players in India for their export market. These are particularly products like shrikhand and ice creams. Apart from that we have expanded our product portfolio with our existing clients like Mother Dairy for additional products like skimmed milk and Dahi. We have started manufacturing cheese as well, so earlier we supplied couple of private label products to Britannia, now cheese is one more product, which has been added into the list. We continue to grow our best-selling consumer products, across retail touch points and modern trade.

Coming to the financial performance of the quarter, our actual Q1 FY2018 revenues increased by around 23% to around Rs.360 Crores, milk prices have reduced by around 5% last quarter, gross margins have improved from around 19% to 21% year-on-year which led to higher realizations in the consumer business. Our EBITDA has grown on an absolute level by around 15.7% year-on-year to around Rs.29 Crores and EBITDA margin slightly decreased from 8.5% to 8%. Business promotion expenses have increased due to greater focus on growing value-added products and B2C sales, which is a major reason. Employee benefit expenses also were slightly higher because of increasing human resource allocation to the paneer and cheese brand because as of now we increased our overall utilization of the cheese plants, these expenses have also slightly gone up and our Q1 FY18 PAT has decreased by around 3.5% year-on-year from Rs.6 Crores to around Rs.5.8 Crores. Going forward, we shall remain committed to our growing value-added products business, consumer business especially and while we maintain our stronghold on our ingredient business, with this everyone I would like to leave the floor open for question and answer session now.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Dhaval Mehta from Emkay Global. Please go ahead.

Dhaval Mehta: Good morning Sir, thanks for the opportunity and congrats on a decent set of numbers. Sir my first question is related to the category - ghee so especially after the increase in GST rate in that category, how has been the demand post GST and have you seen any destocking especially in the month of June in this category?

Vivek S Nirmal: You are talking about the ghee category.

Dhaval Mehta: Yes, ghee category.

Vivek S Nirmal: So, ghee GST has gone up. Earlier in the VAT regime, it was around 5.5%, now it is in 12% category and we have seen slight impact on the demand, what has happened is particularly in the month of July, since the festive season starts from the Shravan month and it will continue till Deepavali, the demand has gone up. So, we have not really seen any decrease in off take and as far as the consumer is concerned, I think it will take some time for us to really understand that what has been the consumer impact because in terms of MRP, the correction and all has not yet come in. There is MRP correction due as GST is in process and for lot of other players as well so the impact on consumer demand I believe is yet to be seen.

Dhaval Mehta: So ideally still we are selling it around Rs.530 per kg and we have not passed on the higher GST rate to consumers so we are yet to pass on the higher GST rate to the customers?

Vivek S Nirmal: We are in process of passing it on, we are retailing at around Rs.550 per liter and we are in the process of passing on the GST.

Dhaval Mehta: So with the entire increase of 7% rate, will you pass on to the consumer or we will also bear some amount of it?

Vivek S Nirmal: It depends. What is happening is right now milk prices are stable, but in days to come since we have had a very good monsoon and as a season as well in this couple of months, we will see the milk prices easing. So as a cumulative impact we will then decide on how much should be borne by the company and how much we should pass on to the consumer.

Dhaval Mehta: Okay that is helpful. Sir my second question is on other expenditure, we had seen sharp increase in other expense I understand that we are spending a lot on branding as well as on distribution, but is there any specific line item in the other expenditure, which is like more of one off or we should expect Rs. 35-Rs.36 Crores run rate on quarter-on-quarter going forward.

Vivek S Nirmal: So there is no one off item, which is higher. This kind of run rate might continue or it might change as well because there are two to three items obviously the brand building and skills and distribution is significant because as a part of strategy consumer business is increasing and so the spend on these as well, but apart from that cheese plant utilization is growing. We are also seeing some increase in manufacturing expenses on that front as well.

Dhaval Mehta: So what was the utilization rate of cheese?

Vivek S Nirmal: Current run rate of cheese is around 20%-25% on the plant level.

Dhaval Mehta: Okay that is helpful Sir. I will come back in the queue. Thank you Sir.

Moderator: Thank you. We will take the next question from the line of Kaustav Bubna from SKS Capital and Research. Please go ahead.

Kaustav Bubna: Hi just wanted to know on your new Volup brand, will you share information on how has it financially progressed, I understand we are at a nascent stage, but will you share how the financial progress has been in this quarter in term of numbers, just want to try to understand the rate at which we are growing on a low base and also the strategy now moving forward with this brand and what is our main plan three to five years down the line with this brand where we aim to take it, how much revenues you think it could be?

Vivek S Nirmal: See Prabhat Dairy is very clearly positioned brand in the middle of the private space of traditional Indian product and mostly all the products are centered around Prabhat but when it came to ice cream particularly we are also getting into high gross margin categories, which are like ice creams and milk-based beverages, which will follow in days to come and for that we actually have developed a new brand. We do not have a strategy to develop too many brands as such, but this brand particularly since it is ice cream, it is all about indulgence, it is about fun, it is about excitement and that is why it was necessary to create a different brand for it because Prabhat Dairy is all about trust and traditional and homemade taste, which this category is not about it, so Volup ice creams have been launched in March, it was actually a soft launch. We have only launched in 10 cities like Aurangabad, Nasik, and some super markets to test out the product so the initial response has been very good, very encouraging. We are trying to position these products in slightly premium range of ice cream because ice cream market is growing at more than 15% of CAGR but there is lot of competition in the economic space of ice cream, so we are positioning this and slightly premium range of ice cream. Right now the business obviously is very, very small because it is a test launch and not very significant numbers to share but in next four to five years, we intend to become a key player in Western India. Maharashtra is our primary focus. In next three years, we expect this brand to become a pan Maharashtra brand and in terms of revenues we target around Rs.100 Crores of revenue for this particular segment, which is the ice cream in the next three to four years' time.

Kaustav Bubna: Rs.100 Crores of revenue?

Vivek S Nirmal: Yes from this particular segment.

Kaustav Bubna: Where is all the manufacturing being done? Is it in your existing facility? So there was no incremental capex?

Vivek S Nirmal: No we already have been manufacturing ice cream for Mother Dairy since the last three years so the same facility has been used for our Volup range of ice creams at present and there are certain SKUs for which we have outsourced some of the SKUs as well.

Kaustav Bubna: Could you share with me your milk procurement exact price for this quarter versus last quarter?

Vivek S Nirmal: So the prices are around Rs.27 right now per liter, which was around Rs.28 in the last quarter.

Kaustav Bubna: What you expect since good monsoon etc., what you expect by the end of this year, do you expect this to reduce?

Vivek S Nirmal: See prices are still I think holding steady and September-October onwards we expect these prices to ease out.

Kaustav Bubna: Okay. Great, thank you if I have anything else I will come back.

Moderator: Thank you. We take the next question from the line of Punit Arora an Individual Investor. Please go ahead.

Punit Arora: I wanted to know the impact of GST negotiations on the VAT returns?

Vivek S Nirmal: So on the VAT returns are we talking about the mega project benefit particularly?

Punit Arora: Yes exactly that one.

Vivek S Nirmal: So right now there has been no change as such from the state government, but we hope GST I think there might be some changes, which state government is yet to come back to the players who I see have the mega project benefit. Right now it is all about the VAT, which you collect and pay to the state government. We are yet to get the clarity, which we expect to get by next month from the state government that there will be changes in the GST regime.

Punit Arora: Okay so by then how much VAT returns, do you expect not receive till this clarity is not there?

Vivek S Nirmal: See right now as you see the current run rate, which is going on and I believe it could be constant with the consumer business growing, it is also growing as well the return is also growing, but actually we will be able to say that the exact thing once we get some clarity from the state government as well.

Punit Arora: What was the amount of VAT difference in this quarter?

Raviraj Vahadane: This is Rs.480,000.

Punit Arora: Rs.480,000. My next question is about the subsidiary Sunfresh Agro, just wanted to know that major different between the product portfolio of the standalone Prabhat Dairy and the consolidated one? I mean is it all fully divided while the standalone does not have it?

Vivek S Nirmal: I am sorry I did not get your questions really?

Punit Arora: So what are the major product differences in the portfolio of the standalone Prabhat Dairy company and the consolidated one since it is 100% subsidiary is it fair that I can take a difference of the lines items and consider that to be the financials of Sunfresh Agro?

Vivek S Nirmal: Sunfresh Agro is a 100% subsidiary of Prabhat Dairy and there are certain products like especially the ingredients like Cheese, like milk powders and all which are manufactured under Sunfresh Agro and the milk required for that actually it is procured by Prabhat Dairy. Prabhat Dairy is a company, which is engaged into milk procurement activities and also the branding, and distribution and Sunfresh is a company, which basically is engaged into manufacturing of the ingredients.

Punit Arora: So that cheese business is in largely Sunfresh Agro?

Vivek S Nirmal: Correct.

Punit Arora: What percentage will cheese contribute to the overall revenue of Sunfresh Agro?

Vivek S Nirmal: We do not have numbers as much right now because we do not have a product wise breakup, but if you see cheese particularly as a standalone capacity, we are at 20-25% utilization. Right now as a percentage of total revenues of Sunfresh Agro, it would not be very significant. I do not think it would be around more than 10% right now, but it is growing constantly as our cheese utilization continues to grow up.

Punit Arora: Okay all right thank you. I will stand in queue.

Moderator: Thank you. The next question is from the line of S. Jain from Edelweiss Securities. Please go ahead.

Manoj: Hi Vivek this is Manoj from Edelweiss. My first question is this quarter particularly has there been some regrouping of sales expenditure to sales like the sales expenditure earlier whatever retail sales promotion expenditure which we used to incur that is used to be netted off from sales, so is there some change which has happened in this quarter?

Raviraj Vahadane: Sir there is no change as compared to last quarter. Procurement is same.

Manoj: It is same so it is like the other expenses increase is mainly because of actual increase in the brand and distribution expenditure right?

Raviraj Vahadane: It is one of the items.

M. Jham: Okay second question is on the cheese side, if we look at the competition, the competitive intensity on the cheese side is going up significantly like recently Amul has also announced that they are going in a big way to the Horeca segment and they have also tripled their capacity and also the next big player, they are also increasing their capacity by almost 50%, so how do you see that with this increase in competitive intensity how easy it will be to scale up your cheese utilization?

Vivek S Nirmal: See what we have been experiencing is that our plant of cheese started in June 2015 it has been around two years now and first year actually we saw very slow scale up. Particular focus is on the Horeca segment and corporate**.** Now consumer business, we are not into the consumer space of cheese so to say which is like cheese slices or wedges and all, because still whatever is the facet in India of the cheese business, 70% of the market is in Horeca and the QSR chains. We are main player in the QSR and Horeca chain because of two reasons about the high tech plant as well as our very high quality milk which remains a distinct feature and hence the quality of cheese is much better but this year what we started and seeing is that cheese growth rate is picking up, brand utilization is picking up. There are two basic reasons for it, one is the vendor share where what we supply to the large QSR chain of India and/or is increasing because they have all started witnessing growth, the same store growth is increasing, the overall new business is increasing, so that is segment where we are seeing growth. Next is the Horeca segment and Horeca segment again now we have a very large distribution network including depots in Delhi, Kolkata, Ahmedabad and lot of other places like Hyderabad now wherein the consumption of cheese in the Horeca space is really increasing and that is why as we are expanding the geographical presence that business also is seeing an increase because our prices are also not at a discount price but the quality is much better. We are also adding new variants like earlier we did not have Ricotta Cheese; our Ricotta Cheese is also variant which has added to the basket that is one. As far as the competition is concerned, see overall cheese market is growing and obviously after the competition reaches a level, they have to expand which everyone is doing, it is a very logical step, but I do not know a thing that is really impacting the other players because there are very few large cheese players in India,. There are hardly three to four larger cheese players in India and we are one of them so whatever growth comes in the entire sector, I think we are confident that we will also continue to have a very significant share of that group.

Manoj: Okay and any plans to enter into the branded cheese segment with your own B2C direct reach of cheese as well as if you can also cover your plans on the whey side like what capacity utilization you will start thinking on whey protein?

Vivek S Nirmal: Okay so right now we have plans to get into consumer branded segment of cheese, but the thing is we do not see anything happening immediately in the next one or two quarters because we are still working on it. That segment is relatively smaller as compared to the overall cheese market in India while we definitely have a production capability and right now the sales and distribution also is ramping up, but may be I do not see us immediately getting into consumer cheese, maybe sometime next year is the time when we would be getting into consumer space, maybe with soft launch and then ultimately ramping it up nationally. As far as whey is concerned, right now we convert out entire whey into whey powder and again at the large bakery or confectionary players, they are clients for it. We do not plan any high value item sort of whey, we might get into this once we have significant generation of whey, which will come up with additional utilization of the plant capacity. So I think we will continue with the same range of whey product for the next one or two years at least before really getting into the value added product of whey.

Manoj: So whey becomes lucrative once you crossed 50%-60% kind of capacity utilization or more than that?

Vivek S Nirmal: Yes, it would. After we reach around 60%-70% of capacity utilization, getting into other value-added products of whey we will definitely start looking at.

M. Jham: Okay and I have one last question you mentioned that the B2C segment of the cheese is not that big. So as per your calculation what percentage of overall cheese market should be represented by this B2C segment?

Vivek S Nirmal: Around 30%-35% is the consumer brand segment.

Manoj: 30% when you mentioned it is in value term not in volume terms right?

Vivek S Nirmal: Value terms originally.

Manoj: So in terms of volume it will be even smaller because B2C is on the pricing side, it is higher than Horeca and B2B.

Vivek S Nirmal: Correct, the consumers definitely are not really consuming more cheese at home. It is growing but more as of touch points of cheese are when there is eating our happening and that is why that is a much larger segment than the consumer branded segment.

Manoj: Okay got it. Thanks Vivek. Thanks for taking my question and wish you all the best.

Moderator: Thank you. We will take the next question from the line of Amnish Aggarwal from Prabhudas Lilladher. Please go ahead.

Moderator: As there is no response from the current participant, we will move on to the next that is from the line of Manish Jain from SageOne Investment Advisors. Please go ahead.

Manish Jain: Hi Ravi, I just wanted to get an insight on capex plan for current year and next year?

Raviraj Vahadane: Vivek Ji, can you explain about the capex plan?

Vivek S. Nirmal: I am sorry, I think I was not on the call for last 30 seconds, can you please repeat the question?

Manish Jain: Yes, Vivek the question is can you give insight on the capex plan for the current financial year and the next financial year?

Vivek S. Nirmal: Right now, we do not have any major capex plan as such in next two, three years, we have some capex although that is in two, three regions, so we do not have the exact outlay for this year to come, but two, three areas where we are investing is one is milk procurement that is basically adding of more bulk milk chillers at the village level because as the requirement for cheese and UHT milk is going up, our requirement of high quality milk also grows, so obviously we are installing more bulk milk chillers at the village level. For these kinds of projects actually Central Government, Ministry of Food Processing Industry is also contributing to us by the way of some granted infrastructure projects. Second capex is also happening in actually installing some packaging line because as we are getting into high-value products like some new variants of ice creams or some new variants of milk-based beverages or some new variants of cheese particularly, so there we are also investing in the packaging lines as such. So these two are the main areas where we would continue to invest this year and next two, three years as well.

Manish Jain: Second question was on working capital, what is the kind of increase that you would expect in working capital on the incremental sales that you achieve in current year and next year?

Vivek S. Nirmal: Definitely there will be an increase in the working capital, there are two things, one is as the cheeses business is increasing we will also see inventories going up due to cheese inventory because that is normally long cycle product, but on the other hand as the consumer part of the business grows, there will be slight decline in the overall cycle, which is slightly larger than the institutional business, so we see the working capital going up this year, but in next two, three years as the revenues grows, we will not see the working capital requirement going up in the same proportion, revenues will definitely grow at a fast pace compared to our overall working capital.

Manish Jain: Thanks, I will join back the queue.

Moderator: Thank you. The next question is from the line of Amnish Aggarwal from Prabhudas Lilladher. Please go ahead.

Amnish Aggarwal: Hi Sir, I have couple of questions. The first being that how has been the milk procurement, has it improved Y-o-Y and Q-o-Q or what is the situation now?

Vivek S. Nirmal: Milk procurement has improved, last two years were very severe drought situations especially in 2015-2016 and last year, we had very good monsoon and this year now we are definitely seeing an impact because normally after good monsoon it takes time for the milk production cycle to revive, so yes I think against around milk procurement which has gone down to around 8, 8.5 lakh litres, we are seeing around 9, 9.5 lakh litres of the milk procurement as the current run rate and we expect may be in the next couple of quarters if this monsoons are also good this year we expect that to increase further by end of this year.

Amnish Aggarwal: So in the first quarter it was around 9, 9.5.

Vivek S. Nirmal: Yes.

Amnish Aggarwal: Was it close to 9 or towards the higher side?

Vivek S. Nirmal: It was in that range, it was in the 9, 9.5 lakh litres.

Amnish Aggarwal: In Q4 was it significantly lower than this number?

Vivek S. Nirmal: No it was not significant, it was slightly lower than this number because normally this is around February, March and all, when normally summer season starts so it was slightly lower than the same.

Amnish Aggarwal: Sir second is how are we placed on the share of B2B and B2C so has the needle moved there or is it still in the same 70:30 kind of number?

Vivek S. Nirmal: It is in the 70:30 kind of range because right now we are in process but we are very much on the path to really get the mixed account 50:50% by 2020.

Amnish Agarwal: Because last year also I think the number was around the same around four, five quarters back, is it because your B2C is going slower or B2B has also picked up significantly?

Vivek S. Nirmal: Both these segments are growing because definitely it is growing faster, but it is not a quarter-on-quarter thing, may be at the entire year if we see then we will be seeing because consumer business is not the same every quarter, there are few quarters, which are much higher than the earlier quarter, but on the cumulative annual basis we will see that the proportion is changing.

Amnish Agarwal: Finally, your other expenses during the quarter they are up significantly up by around 66% odd, so can you give us some breakup that how much was the increase in the advertising how much was your distribution cost and what has been the major factor you can say contributed to this increase, can you give some more breakup of this?

Vivek S. Nirmal: So not in terms of numbers, but definitely in the sales and distribution branding is the major contributor because as the distribution is increasing especially in the new area, so while whatever areas we have started last year we continue to do grow in those areas, but new areas also is what we are starting parallelly, so new areas when we enter obviously the sales and distribution cost given marketing costs are higher number one, number two logistic cost also has gone up because what happens is a lot of products are cold chain items including cheese, so we normally set up depots in lot of new regions, so the depots cost are higher, the distribution cost are higher because these are cold chain assets and all, these two are the major contributors. Having said that, after that comes the manufacturing expenses as I told earlier it is mainly the new packaging lines of cheese which is actually consuming more manpower so to say that is what will be main contributor of further income.

Amnish Agarwal: We have, for example, in your packaging in particular I think you have revamped the entire packaging of a lot of your B2C products as is visible in your presentation, so has there been any change in the MRP post that and is there some one off expenses relating to this make over also?

Vivek S. Nirmal: There are some expenses related to this make over also in this Q1 particularly, but they are not very significant. The makeover right now is in the process because from Prabhat, which we normally use branded products, we have now gone to using Prabhat Dairy because there are lot of dairy products which come under the umbrella in the presentation it is visible and it is still in process, so some of our products it will actually take two to three months for entire things to pan out as the new products come into line and as the old packaging material gets exhausted. In next two to three months we will see the entire new branding and all rolling out in the market.

Amnish Agarwal: For example in your chaas and mango lassi etc., in particular you have moved to tetra packs now are you changing the MRPs in those products?

Vivek S. Nirmal: Yes so tetra packs definitely has a higher MRP, but at the same time our earlier product of cup lassi and cup chaas will also continue because these are different markets. With the cold chain products like cup lassi and cup chaas will also continue because these are the different markets. With the cold chain products like cup lassi and cup chaas we are not able to go beyond Maharashtra, but with the help of tetra pack I think we will be able to go beyond Maharashtra as well.

Amnish Agarwal: Thanks a lot Sir.

Moderator: Thank you.

Shradha Sheth: Vivek, Shradha here. Just needed to understand if you could slice up the sales growth of 23%, which were major contributors to this growth in terms of milk and value added products?

Vivek S. Nirmal: Two, three things, one is mainly ghee has seen a good growth, particularly cow ghee, both in the B2B and B2C space it has seen a good growth that has contributed to the revenue. Second is the whole milk powder, which is again main contributor to the revenue because the whole milk powder consumption of lot of corporate clients also increased. Number three cheese again because cheese capacity utilization has increased, overall cheese is increasing again in both B2B and B2C, when I say B2C it is mainly the Horeca channel, which is distributed through the consumer distributor network. These are the main items due to which the growth has really come in.

Shradha Sheth: Just the cheese part wanted to understand is the utilization on track as we were earlier guiding?

Vivek S. Nirmal: Yes last year it was lower than what we anticipated, last year it did not really pickup, but this year already the current run rate is around 20%, 25%, it is very much on track now.

Shradha Sheth: If you could again reiterate what are the utilizations we are looking at over the next two years or so?

Vivek S. Nirmal: By 2020 actually we expect it to reach around 85% to 90%, by end of this year particularly we expect the capacity utilization to be in the range of 40%, 45% by Q4.

Shradha Sheth: So from 20%, 25% by the end of this year, 40%, 45%.

Vivek S. Nirmal: Yes.

Shradha Sheth: By 2020 we are looking at 80, 85.

Vivek S. Nirmal: 85% to 90% of the capacity utilization.

Shradha Sheth: In this journey if you could explain how is our distribution expansion happening because that is the major contributor, so as you had highlighted the cities that we have added, so if you could give some data points how has our distribution reach expanded?

Vivek S. Nirmal: There is two basic segments, which are preventing the growth of cheese, one is the B2B wherein actually there are large clients, we normally do not group them under the food service because they are large corporate clients, so they are growing, we are also acquiring new clients as well, we are also getting into co-manufacturing of cheese as well, so that is already preventing the growth of the cheese B2B. On the consumers, I think which is more faster, the food service especially which is more faster than the B2B there the growth is simply coming from geographical expansion because food service as a division is what we have started only before two years and we are not present in a lot of towns in India still, so what we have done before two years is we have started creating infrastructure like depots and distributors and C&F all across India, so we already have a lot of them now and that is why they are able to reach more and more restaurant, more and more fine dines and all wherein the growth is coming from and we continue to open new depots for example we are still not there in cities like Bengaluru and Hyderabad, Chennai and all for cheese, we have recently opened that depots in East India and all where – so there the distribution is still growing and there we support it with a lot of business development activity, so we have our business development shift to particularly create new recipes, work with the restaurant guys and really make them to increase the consumption of cheese. This is basically our DNA of our B2B wherein we really understand the customers requirement that is the learning we have adopted into the service business and due to this we now have deeper engagements with the shares, with the restaurants, with the key guys of the restaurants and that is why it is seeing a consistent growth where we are already present and we are also able to acquire the clients in the new geography as well.

Shradha Sheth: Sure that is helpful, if you could just give some number in terms of Horeca what is the kind of Horeca we are catering today in terms of number of Horeca outlets and how are we looking at over the next two, three years since that is the major chunk.

Vivek S. Nirmal: I think all India number of key accounts not only key accounts in Horeca is around more than 1,800 to 2,000 accounts, which we cater all India. This is not the number of distributors basically, this is the number of key accounts, which would be restaurant chains or small fine dine chains, which we cater to.

Shradha Sheth: Okay and how are we looking at this figure over the next two, three years?

Vivek S. Nirmal: By 2020 we basically target around 10,000 key accounts, which we will be catering by 2020, which includes all the small and large restaurants and since it is a new segment since last two years, in next two, three years I think that will see exponential growth happening particularly due to cheese.

Shradha Sheth: Sure and today you say in terms of major towns or cities we would be present in how many?

Vivek S. Nirmal: Except South India now we are present in all the key towns, all the metros we are present in Delhi, Kolkata, Ahmedabad, Mumbai, we have now also started being in tier 2 towns in North India, East India and all, for example now we are in Guwahati and North East also for cheese, we are in Punjab, Chandigarh belt and we were earlier in Ahmedabad, now we are in other parts of Gujarat we have started our depots, the smaller cities like Indore and Bhopal as well, so these kind of cities also now have started coming under own distribution network.

Shradha Sheth: Sure. Thank you. That is very helpful and just on the other products how is paneer scaling up and also in terms of ghee what is the kind of growth you are seeing right now?

Vivek S. Nirmal: Paneer is scaling up well, but paneer is not a product, which we really have a large focus on honestly because in the Horeca segment an organized player normally does not remain competitive for paneer because there are a lot of small and local paneer manufactures. In consumer business yes paneer is scaling up, paneer is scaling up well, but again paneer is only West India because it is a cold chain product. We do not have our manufacturing sets up in other parts of the country, so it is witnessing a limited growth. In terms of ghee it is witnessing a good growth because since it is an ambient product and a high value product that we are able to transport it in all parts of India, so ghee is definitely witnessing a very good growth in terms of same store sale as well as the new stores what we acquired, we will see a bigger growth in ghee in days to come because modern trade earlier was only Maharashtra, we only were present in Maharashtra based modern trade outlets now since we have started lot of new modern trade chains including Wal-Mart, including Easyday and all and that too in places like Kolkata, Delhi and all wherein cow ghee is in a good demand, we will see more expansion happening in the cow ghee.

Shradha Sheth: Great. That was very helpful, just lastly from my side. If you could just tell us what are the current debt levels for the long-term and short-term and what are the interest rates currently and what we are looking at?

Raviraj Vahadane: We have long-term debt of around Rs.41 Crores as on June 30,2017 and short-term debt of around Rs.200 Crores, we are almost around 230 Crores total net debt and the interest cost be around 18%.

Shradha Sheth: 18% is the interest rate sorry did not understand.

Raviraj Vahadane: 10%.

Shradha Sheth: We were looking at bringing down this interest rate, so any progress on that?

Raviraj Vahadane: Yes we are discussing and negotiating with banks, most probably rates will come down below 9%.

Shradha Sheth: These are the kind of net debt levels, which will sustain even going forward?

Raviraj Vahadane: Yes.

Shradha Sheth: Okay great. Thank you. Lizaan can you continue with the questions.

Moderator: Thank you. The next question is from the line of Shailesh Kumar from Sunidhi Securities. Please go ahead. The line for the current participants seems to have dropped off, we will move on to the next question that is from the line of Nitin Shetty from Big Investors Blog. Please go ahead.

Nitin Shetty: You also manufacture curd for Heritage and some other company, right?

Vivek S. Nirmal: Yes.

Nitin Shetty: Now you have become very competitive, how are you reacting to this?

Vivek S. Nirmal: Normally what is happening is that in Mumbai we have a plant in strategic location, which is very easy to distribute products like curd and all and we are very high level of manufacturing excellence due to which other dairy players also come to us to get their curds co-manufactured because Mumbai is a large market and everybody wants a share of it. Having said that all the investments have been made by the company so we do not have any kind of exclusive arrangements for any product manufacturing and that is why we also manufacture curd for couple of other companies including Heritage or including Britannia as well and we have our own curd manufacturing also in the same facility, but our distribution network is completely independent because we have a large liquid milk distribution network. Our distribution network is completely independent, so while these products are getting manufactured at the same place it all also depends on what is the distribution strength that company has, what is the kind of brand positioning that particular company has, so that is why I think the competition is in the market, so it does not really matter whether it is getting manufactured at the same place or different place.

Nitin Shetty: How is your brand compared to Heritage or Britannia? Is it higher than Heritage or how do you plan to position your brand?

Vivek S. Nirmal: I cannot talk really about the other competitor's brand positioning, but if we talk about Prabhat Dairy we are clearly middle of the pyramid brand, our products are more towards the home taste products and TG is basically woman who right now prepare these kind of products at their home and which are now shifting to the packaged dairy product, so that is why more traditional kind of taste, home taste and high thrust around the pure milk is what our positioning is and in terms of pricing we are again very much at par with the other large competition in the market.

Nitin Shetty: And Volup could be comparable to what kind of a brand? Because Kwality Walls basically has frozen dessert right now, does it compare to Amul?

Vivek S Nirmal: No actually, it will be compared more premium than Amul because while Kwality Walls is a frozen dessert, but overall normally all theses products operate in the ice cream space really, so the consumer perception of the premium ice creams, there are couple of products, which are in the range of around Rs.72-80 per stick, I am talking about the price range instead of 2-5 kg slightly in the premium range, so we have two brands, one is Volup and second is Volup Sinsane, the Volup Sinsane is a premium brand, which has takeaway packs like 1 kg and 500 gram tubs and also the premium extruded variety of candies, which are in the range of around Rs.60-80 that is the premium range brand and Volup is mainly a popular range brand, the MRPs of which you will find at par with lot of the competitors, slightly higher like 10%-15% higher in terms of it because the brand positioning is slightly on the premium note, so that is the pricing strategy of Volup.

Nitin Shetty: How much is your cinema advertising campaign going on because there is only 1% while adopting the cinema advertising, is it doing well for you all?

Vivek S Nirmal: Yes. See normally in ice creams since it was a soft launch we particularly had to do tactical advertisement only in the cities where we have launched our Volup ice creams and that is why it was mainly the cinema advertising, it has done really well in terms of brand awareness, which is very important for a new brand in the next two to three months to test. We have been able to get a very good brand with the awareness due to the cinema advertisement.

Nitin Shetty: Okay. That is it from my side. All the best.

Moderator: Thank you. The next question is from the line of Sanidhya Daga from Athena Investment. Please go ahead.

Sanidhya Daga: Firstly congrats on decent set of numbers. I want to know what revenue guidance would be for the year and next couple of years going forward and where do you see the maximum growth coming from?

Vivek S Nirmal: In terms of numbers, I think, we have maintained a healthy growth rate in past couple of years. Our target is to reach around Rs. 2000 Crores of revenue by 2020. We are pretty much on track for that and the major growth drivers in these three divisions is obviously our consumer division largely and consumer division if you talk there are two, three major segments, so liquid milk obviously will be a last contributor to this, because liquid milk business is growing for us now especially now in our next two to three years will be having breakeven on that. Ghee is the second largest contributor, which is growing and the third would be cheese.

Sanidhya Daga: Sir can you give us any number as in, if you are saying Rs. 2000 Crores by FY2020, so liquid mild, ghee and cheese how much could they contribute?

Vivek S Nirmal: We normally do not have share the product wise or the segment wise revenue as we do not have a policy for guidance as well. I will not be able to tell you the exact number. The vision is to basically to reach 2000 Crores and we are pretty much on track on that.

Sanidhya Daga: Okay, also given that the EBITDA margins were bit soft because of the reasons that you have highlighted, so going forward what kind of margins can we expect?

Vivek S Nirmal: The margin expansion is definitely there in view because the gross margin if you see the gross margin expansion is already started happening and as the consumer or the business increases the gross margin expansion will continue to happen. Yes the milk prices have been higher and that also has been a major bearing on the EBITDA level, so in the next two to three years as the milk prices soften I think EBITDA expansion will definitely happen and also with the fact that our consumer business and cheese business will increase, all these factors put together definitely would result into this segment.

Sanidhya Daga: So any numbers that you can give for this FY and the next couple of FY in terms of percentage of EBITDA?

Vivek S Nirmal: Again, we will not be able to share the exact percentage wise numbers, but yes I think in the next two to three years we will see it. Right now what is happening is while gross margin is expanding, our brand building and sales and distribution expenditure are also increasing, so we really are not able to see a gap for expansion in the EBITDA level, but as of now the overall consumer business increases and the spend would remain at the same level and obviously as the launch activities and all slightly start coming down, these business will be more profitable…

Sanidhya Daga: By what time do you see this coming down, I mean when do you see our brands getting settled down in the market, so that we can reduce on our marketing spends, etc.?

Vivek S Nirmal: In two to three years' time.

Sanidhya Daga: Thanks a lot.

Moderator: Thank you. We will take the next question is from the line of Sailesh Kumar from Sunidhi Securities. Please go ahead.

Sailesh Kumar: Thanks for the opportunity. I have a couple of questions. First thing is what is the sustainable level of EBITDA margin that we are seeing from here on?

Vivek S Nirmal: I think this level of EBITDA margin that we are seeing at constant because we have seen the milk prices really have been on the higher side and all, still the company has been able to maintain really this kind of EBITDA, because our milk sourcing is direct and we have a good mix of B2B and B2C, so we believe that we should remain at the current level or expand in the days to come.

Sailesh Kumar: Current level means Q1 FY2018 is the kind of the EBITDA margin we have registered we would be able to maintain that at least.

Vivek S Nirmal: Yes.

Sailesh Kumar: Second thing is what is the advertisement and distribution expense that we are budgeting maybe on absolute terms or maybe a percentage of sales going forward?

Vivek S Nirmal: So this year particularly we have been budgeting in the marketing spend which is in the range of around Rs.15-20 Crores for the entire year.

Sailesh Kumar: Okay and going forward as a percentage of sales how it would look like even our focus on consumer segment?

Vivek S Nirmal: It will be difficult to link it to the percentage of sales because we have different product segments liquid milk for example has a completely different percentage as compared to some of the new products categories like ice cream, so it is difficult to put a number in terms percentage, but this year this is what we are planning.

Sailesh Kumar: My last question is what is the current level of retail reach that we have and how do we see this number panning out by 2020?

Vivek S Nirmal: Right now we are present in around 1 lakh outlets in general trade all across India. We see this number to be around 2 lakh outlets by 2020, so doubling the current levels, so this is basically in general trade. In modern trade till March Q4, we were present in around 140 outlets only because we were only present in Maharashtra, but the strategy by end of this year is around 1,050 outlets, which is basically including Western India, north India and Eastern India and by 2020 has been in terms of modern trade we expect to reach around 3,000 plus Crores all across India.

Sailesh Kumar: So you are saying by this year end we will be reaching 1,050 outlets in modern trade and by 2020 it would be 3,000 plus?

Vivek S Nirmal: Yes.

Sailesh Kumar: Thank you very much Sir.

Moderator: Thank you. Ladies and gentlemen that is the last question. I now hand the conference over to the management for their closing comments.

Vivek S Nirmal: Thank you very much for coming on the call everyone and I think as we continue to strengthen our integrated business model, I think in days to come, we will also see some new products particularly from the basket of Prabhat especially in the range of milk beverages. Our new branding and entirely new image of Prabhat Dairy as a corporate as well as the consumer product is also panning out and I think we expect to see good volumes in terms of milk especially with good monsoons this year. With this, again thank you everyone for coming on to the call. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Edelweiss Securities that concludes today's conference. Thank you for joining us. You may now disconnect your lines.